

**STATE OF WASHINGTON
STATE INVESTMENT BOARD**

Public Markets Committee Meeting
Minutes

April 1, 2003

The Public Markets Committee met in open public session at 1:02 P.M. at the Washington State Investment Board (WSIB) office at 2100 Evergreen Park Drive Southwest, Olympia, Washington.

Members Present: Charles Kaminski, Chair
Debbie Brookman
Glenn Gorton
Lee Ann Prielipp

Other Board Members Present: George Masten

Members Absent: Jeff Hanna
Robert Nakahara
Patrick McElligott
Representative Sommers

Others Present: Joe Dear
Gary Bruebaker
Nancy Calkins
Bill Kennett
Linda Lester
Maria Tosteson-Rosen
Kristi Bromley

Janet Becker-Wold, Callan Associates
Michael O'Leary, Callan Associates
Joe Germain, Grantham, Mayo, Van Otterloo & Co. LLC
Sam Wilderman, Grantham, Mayo, Van Otterloo & Co. LLC
Omid Kamshad, Putnam Investments
Amy Walls, Putnam Investments
Bruce Campbell, Pyrford International, PLC
Charu Fernando, Pyrford International, PLC
Jeff Trencher, State Street Bank

The meeting convened at 1:02 P.M. with Chair Kaminski identifying members present.

REVIEW AND APPROVAL OF MINUTES – MARCH 4, 2003

Ms. Prielipp moved to adopt the Public Markets Committee minutes of March 4, 2003. Ms. Brookman seconded, and the motion carried unanimously.

STATE STREET BANK SECURITIES LENDING PROGRAM REVIEW

Mr. Bruebaker introduced Mr. Trencher, the new State Street Bank (SSB) securities lending client services representative for the WSIB account. Mr. Trencher provided a performance summary, and noted that interest rate cuts have been favorable to securities lending returns. He reviewed the factors affecting the lending markets, and reviewed the reinvestment highlights, LIBOR yield curve, and yields on cash collateral. Mr. Trencher discussed recent U.S. market information. He reviewed the Deutsche Bank integration with SSB, including combined custody assets. Mr. Trencher reviewed a risk / return comparison depicting where the WSIB is relative to a number of SSB commingled funds.

The Committee members discussed the integration of Deutsche Bank, and its possible effect on the percentage of WSIB assets on loan. Further discussion ensued regarding the risk / return efficient frontier, including portfolio guidelines. It was noted that the presented efficient frontier was for a specific point in time; Chair Kaminski requested a risk / return comparison of the WSIB, Quality A, and Quality D portfolios over time.

PUBLIC EQUITY – EDUCATIONAL SESSION – OUTLOOK ON INTERNATIONAL EQUITY

Mr. Bruebaker reviewed the topic of the educational session as well as the topics for the May and June educational sessions. He said that Callan and staff would present their recommendations for the WSIB's international program at the Committee's July meeting.

Pyrford International, PLC (Pyrford)

Mr. Campbell began his discussion by noting that, since the U.S. is 50 percent of the world's stock market and 30 percent of the world economy, it is essential to review the U.S. economic situation in an assessment of where the world economy is going in the next few years. He reviewed graphs depicting the excessive leverage issue in the U.S., noting the effect on the rate of economic growth while debt is reduced. He discussed inflation and budget deficits in the Euro-zone, and noted the difficulties for fiscal policy caused by the Euro-zone. Mr. Campbell reviewed information related to the economies of Japan, China, and Australia, and noted that he is not optimistic that Japan will be able to get inflation above zero, believes China's economic growth does not have a large impact on the rest of the world, and noted that Australia has the best level of sustained gross domestic product (GDP) growth of any developed country. He also stated that the demographics of greater Asia are particularly good.

Putnam Investments (Putnam)

Mr. Kamshad stated that Putnam has similar views to those presented by Pyrford. He noted that the U.S. is a large driver of the global economy. He reviewed graphs depicting the current account balance, private sector deficit and public sector deficit, all as a percent of GDP, in 2000 compared to today. He reviewed potential sources of disequilibrium to the world economy, including: lack of investment opportunities in Chinese currency markets; current U.S. account deficit; potential bubble in government bonds worldwide; and the effect of high volatility in the markets. Mr. Kamshad presented Putnam's economic outlook, which included: below average growth in Europe and the U.S.; corporate bonds to continue to do well; continued selling by distressed sellers providing buying opportunities; the U.S. dollar to remain in the +/- seven percent band following big moves of the last 18 months; and they are bullish in developing markets.

Grantham, Mayo, Van Otterloo & Co. LLC (GMO)

Mr. Wilderman noted that GMO believes that economic fundamentals are very important in the long run and, in the end, valuation will drive returns. He stated that GMO has been bearish in the U.S. market for a long time, and stated that while emerging markets are riskier, investors should expect a higher return over the long-term. He reviewed expected absolute returns for stocks, bonds, and other (real estate investment trusts and managed timber). Mr. Wilderman noted that U.S. equities are still materially overvalued and that emerging markets are “cheap.” He stated that emerging markets obtain strong absolute positive returns when they trade at low valuations. Mr. Wilderman reviewed the volatility of the IFC and NASDAQ indices.

Discussion ensued pertaining to cyclical adjusted earnings, nominal returns, ten-year return assumptions, and active versus passive management.

[The Committee recessed at 2:30 P.M. and reconvened at 2:37 P.M.]

PUBLIC EQUITY – INVESTMENT MANAGER PORTFOLIO REVIEWS

Pyrford

Mr. Campbell and Ms. Fernando introduced themselves. Mr. Campbell reviewed Pyrford’s investment philosophy and process, total assets under management, and product assets under management. He reported that there were no changes to ownership structure and no turnover in senior staff. In response to a question from Mr. Bruebaker, Mr. Campbell reported that the California Public Employees’ Retirement System bought into Pyrford in October 2001, and represents \$1.1 billion of the \$1.3 billion total assets under management. He reviewed Pyrford’s Model EAFE plus Canada equity portfolio, which has 72.17 percent invested in Europe and 27.83 percent invested in Asia Pacific, and reviewed the over- and under-weights in the portfolio. He reviewed performance of the WSIB portfolio versus the MSCI EAFE plus Canada, as of February 28, 2003, for the fourth quarter 2002, one-year, three-year, year-to-date, and since inception periods; portfolio characteristics; performance attribution since inception; and risks to

the portfolio. Mr. Campbell also reviewed allocation changes to the WSIB Model Portfolio for the 12-month period ended February 28, 2003, the ten largest holdings, ten best performing stocks, and the ten worst performing stocks.

GMO

Mr. Wilderman and Mr. Germain introduced themselves. Mr. Germain provided an overview of GMO, including their investment philosophy and assets under management. He reported that GMO is closing its emerging markets strategy to new clients September 30, 2003; current clients can continue to invest in the fund. Discussion ensued regarding the closure of the emerging markets strategy and the opening of the emerging country strategy, an alternative product, including capacity and similarities and differences between the strategies. Mr. Germain reported that there have been no changes to the investment team since the last portfolio review and reviewed the ownership structure of the firm. Mr. Wilderman reviewed GMO's investment philosophy and investment process. He provided a portfolio review, including country overweights and underweights, and allocations by stock, sector and region. Mr. Germain reviewed the fund and investment objectives. He reviewed performance, as of February 28, 2003, for the year-to-date, one-year, three-year, five-year, and since inception time periods; performance attribution since inception; historical country allocation; top ten holdings; top ten stocks; and bottom ten stocks.

Putnam

Ms. Walls introduced herself and Mr. Kamshad. She provided an update on Putnam, including total assets under management and international global assets under management, and provided information on recent staff changes. Discussion ensued regarding the effect of the staffing changes. Mr. Kamshad reviewed Putnam's investment philosophy and process, and risk management process. He reviewed performance attribution and international market returns for the fourth quarter and year of 2002. Discussion ensued regarding annualized performance since inception. Mr. Kamshad reviewed allocations by country and sector. Discussion ensued

regarding the number of portfolio managers and research analysts in the firm's equity strategies and staff turnover within the last 12 months in those strategies.

Following the manager portfolio reviews, discussion ensued regarding performance and organizational issues.

PUBLIC EQUITY – WATCHLIST UPDATE

Mr. Bruebaker noted that the Watchlist update information in the Committee packet was provided for the Committee's information. He noted that staff is not recommending further action for firms on the Watchlist based on direction from the Committee to wait until the reviews are completed in July 2003.

PUBLIC EQUITY – BENCHMARK REVIEW UPDATE

Mr. Bruebaker stated there was no new information to provide for the benchmark review. He noted that MSCI had reported that they would have further information available by March 15, 2003, but they have not released any information at this time. Mr. Bruebaker noted that, while Wilshire has announced the changes to their benchmark, they will also be partnering with another major index provider, details of which have not been announced at this time.

OTHER ITEMS

There being no further business to come before the Public Markets Committee, the meeting adjourned at 4:14 P.M.